

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 390

February 17, 2009

SUMMARY OF BILL: Exempts the retail sale of solar and wind energy systems purchased exclusively for residential use, and the installation of such systems, from the state and local option sales tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$4,018,200

Decrease Local Revenue – Net Impact - \$1,697,500

Other Fiscal Impact – Additional forgone revenue to state and local government in subsequent years if sales for qualified energy systems increase as a result of this bill. For every one percent of sales growth attributable to this legislation, the state will forgo approximately \$42,100 in sales tax revenue and local government will forgo approximately \$15,000 in sales tax revenue.

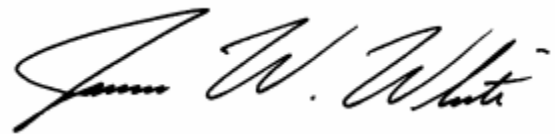
Assumptions:

- The Department of Revenue (DOR) indicates that the growth rate of green energy use was 20 to 25 percent last year. This is based from information released from the National Renewable Energy Laboratory (NREL).
- Based on NREL information and data obtained from the Energy Information Administration, DOR projects sales for qualified energy systems to be approximately \$57,300,000 in FY09-10.
- Installation of qualified energy systems is estimated to be five percent of the cost of equipment (\$2,865,000).
- Total retail sales for qualified energy systems and installation is estimated to be \$60,165,000 in FY09-10 (\$57,300,000 + \$2,865,000 = \$60,165,000).
- The state sales tax rate is seven percent.

- The average local option sales tax rate is estimated to be 2.5 percent.
- The decrease of state sales tax revenue is estimated to be \$4,211,600 for FY09-10 ($\$60,165,000 \times 7\% = \$4,211,550$).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), incorporated municipalities receive 4.5925 percent of all state sales tax revenue as state-shared taxes.
- The decrease of local revenue attributable to state-shared taxes is estimated to be \$193,400 for FY09-10 ($\$4,211,600 \times 4.5925\% = \$193,418$).
- The net decrease to state revenue is estimated to be \$4,018,200 for FY09-10 ($\$4,211,600 - \$193,400 = \$4,018,200$).
- The decrease of local government revenue attributable to reduced local option sales tax is estimated to be \$1,504,100 for FY09-10 ($\$60,165,000 \times 2.5\% = \$1,504,125$).
- The total decrease of local government revenue is estimated to be \$1,697,500 for FY09-10 ($\$1,504,100 + \$193,400 = \$1,697,500$).
- This legislation could incentivize consumers to purchase more qualified energy systems in the future. For every one percent of sales growth attributable to this legislation, state and local government will forgo approximately \$42,100 and \$15,000 respectively.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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